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SUBJECT: DESPITE STRONG TELECOM AND IT SECTORS, MINISTER REIMAN  
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Summary  
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¶1. (SBU) The May 12 GOR cabinet reshuffle replaced IT and Communications Minister Leonid Reiman with longtime Presidential Protocol Chief Igor Shchyogolev. The move surprised observers, who thought Reiman's long personal relationship with Putin and successful development of Russia's communications industry would keep him in his position. Reiman landed on his feet, however, with an appointment as Presidential Advisor on innovation.

¶2. (SBU) Despite charges of conflict of interest and other questionable business dealings, Reiman leaves a record of sustained growth in Russia's telecom and IT sector. Recently-released figures show Russia's Information and Computer Technology (ICT) market booming in 2007, with 25 percent growth overall and big gains in internet use and personal computer ownership. Shchyogolev will face several challenges in his new position, which has taken over press function from the Ministry of Culture, making him Minister of Communications and Press. These include expanding broadband and third generation wireless service, privatizing state landline monopoly Svyazinvest and managing pressure from Reiman. End Summary.

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Reiman Out, Shchyogolev In  
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¶3. (SBU) Counter to widespread speculation, Leonid Reiman was replaced as Information Technologies and Communications (ITC) Minister in the May 12 cabinet reshuffle (reftels A and B). The next day, however, the GOR announced that Reiman would take a position as Presidential Advisor. Our Ministry contacts were surprised by the move, telling us that they only learned of the switch through media reports. The new Minister, Igor Shchyogolev, was Head of President Putin's Protocol Service from 2002 - 2008, and head of Putin's Press Service from 2000 - 2002. Prior to that, Shchyogolev was Press Secretary to Prime Minister Primakov (1998) and an ITAR-Tass correspondent in Moscow and Paris. Just 42 years old, he speaks French, English and German. Consistent with Shchyogolev's background, the Ministry's functions shifted and it was renamed the Ministry of Communications and Press (MCP), which adds the press functions formerly handled by the Ministry of Culture.

14. (SBU) A well-placed industry contact described Shchogolev's posting as "a reward for long-term service" to Putin. Shchogolev has no telecom or IT experience, so the focus of the Ministry was shifted to include mass media. Ilya Ponomarev, a member of the State Duma Committee on Information Policy, Information Technologies and Communications, told us that Reiman's new posting is a way to keep innovation policy under the direct control of the President. He reports that in the previous administration, the Kremlin and White House fought over control of innovation strategy. Before last week's changeover, innovation was part of the portfolio of First Deputy Prime Minister Sergey Ivanov. Ponomarev tells us to expect Medvedev to announce the creation of an innovation council, chaired by the President and directed by Reiman.

15. (SBU) Reiman had been ITC Minister since 1999. He was considered one of the most economically liberal ministers in the Putin cabinet, and is credited with directing a prolonged boom in Russia's telcom and IT sector. His tenure was marred, however, by well-publicized allegations of conflicts of interest. Russian capital company Alfa Group charged Reiman with money laundering in several foreign courts. The court cases produced evidence that Reiman, through off-shore holding companies, owns a stake worth \$2.5 billion in Russia's third-largest mobile communication company (MegaFon). Last year, MegaFon was granted one of three highly-prized third generation wireless licenses. Most observers agree that it was probably Reiman's questionable business dealings, not his performance as Minister, that cost him his cabinet position.

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Reiman's Legacy  
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16. (SBU) Ironically, Reiman's dismissal came shortly after the official release of IT and telecom statistics for 2007 that showed a

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continuation of the solid growth the sectors have experienced for the past decade under Reiman's watch. The Minister also reported success in his drive to connect Russian schools to the internet within the framework of the National Priority Project on Education.

17. (SBU) In a recent meeting with us, MITC Deputy Director for International Cooperation Maksim Timofeyev highlighted some of the Ministry's recent accomplishments. In 2007, the Russian IT and communications market reached 1.5 trillion rubles (\$65 billion), a 25 percent increase over 2006. This included 983 billion rubles (\$423 billion) from telecommunication services and 450 billion rubles (\$20 billion) from information technologies. The number of internet users in Russia grew to 35 million, up 40 percent. Personal computer ownership grew to 31 million, up 36 percent. The number of households accessing broad-band Internet access grew by 50 percent, reaching 4.8 million.

18. (SBU) Timofeyev also reported that Russia had 180 million mobile phone subscribers in 2007, greater than Russia's population of 142 million. Although this represents a 15 percent increase over 2006, the rate of growth slowed from previous years. To address market saturation, the Ministry proposes refocusing its priorities beyond expanding service zones and improving coverage quality to the provision of high-end services like high-speed Internet, mobile television and video calling.

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Ministry Challenges and Priorities  
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19. (SBU) Initial comments by Minister Shchogolev indicate that he may focus Ministry efforts on expanding broadband connection, which is still at low levels, especially outside major cities. Another continuing challenge is the establishment of third generation (3G) wireless service. The GOR issued 3G licenses to Russian companies MTS, VimpelCom and Megafon in 2007. So far, however, only St. Petersburg, through MegaFon, offers 3G service. Service in Moscow was held up by Ministry of Defense refusal to allow civilian use of 3G frequencies, which was finally lifted on March 20. Timofeyev

reported that 3G networks will soon be operating in Moscow and Sochi, with a Ministry goal of coverage in 10 major Russian cities by 2010. The new minister will also face the long-anticipated privatization of State landline monopoly Svyazinvest.

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Comment  
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¶10. (SBU) Although IT and Telecom continue to be among Russia's fastest-growing sectors, the new Minister will face a number of hurdles. In addition to the industry issues of expanding broadband and 3G wireless service and privatizing Svyazinvest, there will also be internal management challenges. There have been moves by the FSB to subject the telecoms and IT industries to strategic sectors restrictions (reftel C). Shchyogolev will also have to contend with Reiman's continued influence in the sector, exerted from a powerful position.